



2006-07 Governor's Budget

Highlights

Department of Health Services

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CALIFORNIA DEPARTMENT OF HEALTH SERVICES PROGRAM OVERVIEW

The mission of the California Department of Health Services (CDHS) is to protect and improve the health of all Californians.

The Public and Environmental Health programs administered by CDHS provide services addressing the prevention and control of chronic diseases including various cancers, cardiovascular diseases, diabetes, and other conditions; the investigation, prevention and control of infectious disease; the prevention and control of environmental and occupational diseases; the prevention and control of injuries; the assessment, prevention, and interruption of the transmission of HIV; and provide for the needs of HIV-infected Californians. In addition, the programs provide financial support, professional consultation and assistance to local health systems; protect the public from consuming unsafe drinking water; regulate the generation, handling, and disposal of medical waste; oversee the disposal of low-level radioactive wastes; protect and manage food, drug, medical device, and radiation sources; and provide public health emergency response and preparedness for natural and intentional disasters.

The Health Care Services Programs provide services to ensure low-income Californians have access to appropriate health care. Medi-Cal provides health care services to qualified persons and families, including low-income families, the seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases. Licensing and Certification regulates the quality of care in public and private health facilities, clinics and agencies, licenses nursing home administrators and certifies Home Health Aides, Certified Nurse Assistants, and other direct care staff. The Laboratory Science Division licenses and inspects laboratory facilities and licenses laboratory personnel. County Health Services disburses and monitors funds to counties for hospital, physician, and related health services. Primary Care and Family Health administers programs that ensure access to comprehensive and coordinated family-centered, community-based, preventive and primary care services to low-income women, infants, children, and families.

GENERAL BUDGET OVERVIEW

CDHS' budget supports activities and services that reinforce the State's commitment to protecting and improving the health of all Californians. For Fiscal Year (FY) 2006-07, the Governor's Budget provides a total of \$38.40 billion for the support of CDHS' programs and services, including the Governor's Initiative to enhance the State's preparation for response to natural and intentional disasters. Of the amount proposed, \$1.07 billion is for state operations and \$37.33 billion is for local assistance. General Fund (GF) increased to \$14.38 billion from \$13.85 billion, a 3.9% increase. Federal Funds (FF) increased from \$20.26 billion to \$20.49 billion. Special Funds, including reimbursements, increased from \$3.19 billion to \$3.52 billion.

The proposed budget affirms the Department's commitment to address the health care needs of Californians. It does this through responsible proposals that continue to address the needs of the most vulnerable populations.

Total CDHS Budget

CDHS Budget by Fund Source *			
Governor's Budget Fund Source	2004-2005 Actual	2005-2006 Estimated	2006-2007 Proposed
General Fund	\$ 12,239,219	\$ 13,851,286	\$ 14,384,799
Federal Funds	\$ 19,904,522	\$ 20,263,648	\$ 20,491,678
Special Funds & Reimbursements	\$ 3,217,605	\$ 3,191,091	\$ 3,524,713
Total Funds	\$ 35,361,346	\$ 37,306,025	\$ 38,401,190

*Dollars in thousands

State Operations

State Operations by Program *				
Governor's Budget Program Title	Program	2004-2005 Actual	2005-2006 Estimated	2006-2007 Proposed
Public & Environmental Health	10	\$ 282,546	\$ 334,420	\$ 372,887
Medical Care Services	20.10	\$ 284,889	\$ 356,980	\$ 374,843
Licensing & Certification	20.20	\$ 108,459	\$ 133,008	\$ 145,056
County Health Services	20.30	\$ 5,458	\$ 7,602	\$ 9,179
Primary Care & Family Health	20.40	\$ 145,337	\$ 165,754	\$ 166,351
Department Administration	30	\$ 11,770	\$ 2,423	\$ 2,482
Total State Operations		\$ 838,459	\$1,000,187	\$1,070,798

*Dollars in thousands

State Operations by Fund Source *			
Governor's Budget Fund Source	2004-2005 Actual	2005-2006 Estimated	2006-2007 Proposed
General Fund	\$ 253,583	\$ 273,791	\$ 253,811
Federal Funds	\$ 367,223	\$ 466,250	\$ 482,612
Special Funds & Reimbursements	\$ 217,653	\$ 260,146	\$ 334,375
Total State Operations	\$ 838,459	\$1,000,187	\$1,070,798

*Dollars in thousands

Local Assistance

Local Assistance by Program				
Governor's Budget Program Title	Program	2004-2005 Actual	2005-2006 Estimated	2006-2007 Proposed
Public & Environmental Health	10	\$ 854,455	\$ 898,587	\$ 926,995
Medical Care Services	20.10	\$32,170,896	\$33,766,956	\$34,741,607
County Health Services	20.30	\$ 52,214	\$ 76,405	\$ 57,956
Primary Care & Family Health	20.40	\$ 1,445,318	\$ 1,563,890	\$ 1,603,834
State Mandates		\$ 4	\$ -	\$ -
Total Local Assistance		\$34,522,887	\$36,305,838	\$37,330,392

*Dollars in thousands

Local Assistance by Fund Source			
Governor's Budget Fund Source	2004-2005 Actual	2005-2006 Estimated	2006-2007 Proposed
General Fund	\$ 11,985,636	\$ 13,577,495	\$ 14,130,988
Federal Fund	\$ 19,537,299	\$ 19,797,398	\$ 20,009,066
Special Funds & Reimbursements	\$ 2,999,952	\$ 2,930,945	\$ 3,190,338
Total Local Assistance	\$ 34,522,887	\$ 36,305,838	\$ 37,330,392

*Dollars in thousands

BUDGET INITIATIVE

Preparing the State for Natural and Intentional Disasters

The CDHS performs a critical function in the State's overall emergency response and preparedness by ensuring the public health needs of Californians are protected during natural and intentional disasters. The Governor's Budget includes \$45.8 million GF, \$103.8 million FF, and 162.8 positions to support California's public health system's capacity to respond to these events, including bioterrorism, outbreaks of infectious diseases, and other public health threats. The Federal Funds are received through grant awards from the Centers for Disease Control and Prevention and the Health Resources and Services Administration, under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002. The following proposals enhance and strengthen the current CDHS preparedness and response programs.

Assuring Pandemic Influenza and Disease Outbreak Preparedness and Response

5.0 Positions

\$673,000 Total Funds

\$673,000 GF

The Governor's Budget strengthens CDHS' pandemic influenza planning effort and allows the department to conduct epidemiologic investigations of influenza and respiratory disease outbreaks, and provide epidemiologic and statistical support to infectious disease laboratories. In addition, the budget includes \$272,000 to fund the five positions for the final four months of the current year.

Managing Antivirals and Vaccines for Pandemic Influenza

1.0 Positions

\$1,503,000 Total Funds

\$1,503,000 GF

The Governor's Budget provides \$1.3 million in Local Assistance and \$203,000 in State Operations funding to purchase and manage 200,000 doses of Seltamivir, an antiviral marketed as Tamiflu®, for treatment or prophylaxis of avian influenza. The budget also includes resources in the current year to purchase 70,500 doses of Tamiflu® (\$460,000 GF) for an initial ring containment of avian influenza. Staffing and consulting services are included in the current year (\$76,000 GF) for managing the antivirals, vaccines, IV fluid, and other pharmaceuticals and medical supplies needed for California's response to a pandemic influenza. The actual number of doses obtained will depend on the price of Tamiflu® at the time of purchase.

Local Health Department Preparedness for Pandemic Influenza

5.0 Positions

\$17,879,000 Total Funds

\$17,879,000 GF

The Governor's Budget provides \$16.0 million in Local Assistance and \$1.879 million in State Operations funding for local health departments (LHD) and CDHS to support preparedness and response functions for pandemic influenza. The methodology to allocate these funds to each LHD will be developed with LHD leadership. LHDs will submit a plan for pandemic influenza and a budget indicating how the LHD will use these funds, consistent with state and local pandemic influenza plans. CDHS will provide regional training for LHD staff in the areas of their responsibilities, including topics such as isolation and quarantine, personal protective equipment, responding to pandemic influenza within the structure of Standardized Emergency Management System (SEMS) and/or National Incident Management System (NIMS), surge capacity, mental health crisis management, community engagement and education, and plan development guidance. CDHS will provide technical assistance to LHDs in implementing their pandemic influenza plans. In addition, CDHS will work with LHDs in managing the allocations and processing plans for pandemic influenza.

The budget also includes \$4.5 million in Local Assistance and \$340,000 in State Operations funding to initiate these activities in the current year.

Pandemic Influenza Public Education/Information Campaign

5.0 Positions

\$14,294,000 Total Funds

\$14,294,000 GF

The Governor's Budget provides resources for developing and disseminating risk communication and public information to Californians. CDHS will allocate resources to establish an emergency response hotline that will provide general information on public health emergency preparedness with specific information on pandemic influenza. CDHS will conduct a public information campaign through media advertising, including developing messages and purchasing media air time for general audiences, as well as Spanish and Asian-language populations. The public information campaign will cover general emergency preparedness involving the Office of Emergency Services and Office of Homeland Security. The campaign will also cover pandemic influenza and the public information ads will be developed and produced for use in a pandemic event.

The budget includes \$3.021 million in the current year to begin pandemic influenza risk communication and public information efforts.

Healthcare and Community Infection Control Program

10.0 Positions

\$1,375,000 Total Funds

\$1,375,000 GF

The Governor's Budget provides resources to develop and maintain a program for the surveillance, laboratory testing, prevention, and control of healthcare-associated and community-acquired infections. These resources will support regulatory oversight of health facility infection control practices; training of enforcement personnel in infection surveillance, prevention, and control; updating California infection control regulations; epidemiology; surveillance; outbreak investigations; consultations; development of infection prevention guidelines; and laboratory diagnostic services such as molecular fingerprinting and detecting unusual drug resistance. These activities will enhance existing infectious disease activities of CDHS, other State agencies, local health departments, healthcare facilities, and communities.

Developing Workforce Capacity for Outbreak Response

0 Positions

\$350,000 Total Funds

\$350,000 GF

The Governor's Budget provides resources to train existing frontline public health field investigation staff to more effectively respond to any infectious disease

event, including pandemic influenza and bioterrorism. These funds will allow for a comprehensive skill-based field investigation training program to establish and sustain a 100-person ready response team for infectious diseases and bioterrorism emergencies. The budget also includes \$200,000 in the current year to initiate this training as soon as possible.

Expansion of Local and Statewide Communicable Disease Surveillance Infrastructure

4.0 Positions

\$1,329,000 Total Funds

\$1,329,000 GF

In the area of communicable disease control, DHS' ability to make rapid and appropriate public health policy recommendations, and to take decisive actions to mitigate threats to the health of California's citizens, is predicated upon the timeliness, accuracy and quality of communicable disease surveillance. The Governor's Budget provides an additional \$1.329 million for staffing resources and contract services to expand and maintain State and local capacity to conduct communicable disease surveillance, the basis for detecting and responding to outbreaks or bioterrorism events. The surveillance program will be strengthened through improved coordination, maximum use of surveillance data, and oversight, support, training and outreach.

Public Health Preparedness for Chemical and Radiological Disasters and Terrorist Attacks

15.0 Positions

\$4,179,000 Total Funds

\$4,179,000 GF

The Governor's Budget provides positions and contract funding to assist local agencies in planning, training, responding, and recovering from natural and intentional disasters that could result in chemical and radiological contamination of food, water, and the environment. These positions and funding will be used to: 1) develop plans and support training for public health responses to chemical and radiological contamination resulting from disasters and terrorist attacks; 2) develop food and water protection plans against intentional contamination with chemical and radiological agents; 3) provide training to local jurisdictions and the food industry; and 4) enhance laboratory capability to rapidly and accurately identify chemicals and radiological agents contaminating food, water, and the environment in disasters and terrorist attacks.

Infectious Disease Laboratory Infrastructure: Strengthen Surge Capacity to Address Bioterrorism and Emerging Diseases

13.0 Positions

\$4,240,000 Total Funds

\$4,240,000 GF

The Governor's Budget includes \$2.5 million in Local Assistance and \$1.74 million in State Operations to strengthen the laboratory infrastructure in

California. Laboratory infrastructure is critical to ensuring surge capacity to deal with an outbreak such as pandemic influenza or a bioterrorist attack. It is vital that adequate capacity is provided in the Microbial Diseases Laboratory and the Viral and Rickettsial Diseases Laboratory. The budget includes funding for recruitment and retention pay for key laboratory staff, establishing pre-doctoral and post-doctoral training programs to ensure a qualified pool of candidates to replace local laboratory directors as they retire, and implementing new tests for controlling old and new infectious diseases.

The budget also includes current year funding of \$470,000 GF to fund five of the 13 positions for the last four months of the fiscal year and \$250,000 to purchase necessary laboratory equipment for the All-Hazard Risk Assessment Laboratory trailer at the Richmond Public Health Laboratory complex.

Distribution of New Preparedness Positions	
Organizational Division/Office	Number of Positions
Emergency Preparedness Office	9
Division of Communicable Disease Control	33
Division of Food, Drug, and Radiation Safety	6
Division of Environmental and Occupational Disease Control	4
Division of Drinking Water and Environmental Management	5
Office of Public Affairs	1
Total Positions	58

BUDGET ADJUSTMENTS

MEDICAL CARE SERVICES

Drug Rebate Program: Extend Expiring Limited Term Positions an Additional Year

11.0 Positions

\$988,000 Total Funds

\$494,000 GF

\$494,000 FF

The Governor's Budget provides for the extension of 11 limited-term positions for one year to resolve the aged drug rebate outstanding payment backlog and obtain budgeted drug program savings. The 2003-04 Budget Act authorized 11 positions to resolve the outstanding balance of aged drug rebates. These positions were originally approved as three-year, limited-term positions with an expiration date of June 30, 2006. However, due to position vacancies caused by the limited-term status, these positions are needed for one additional year to eliminate the backlog.

Breast and Cervical Cancer Treatment Program Positions to Address a Growing Application Backlog

20.5 Positions

\$1,902,000 Total Funds

\$ 951,000 GF

\$ 951,000 FF

The Governor's Budget provides resources to address the needs of the Breast and Cervical Cancer Treatment Program (BCCTP). The BCCTP provides treatment services to eligible California residents diagnosed with breast and/or cervical cancer. These resources will enable CDHS to ensure timely processing of eligibility determinations and new applications from persons with breast and cervical cancer who need treatment.

Medi-Cal Fiscal Intermediary Contract Oversight

3.0 Positions

\$294,000 Total Funds

\$ 74,000 GF

\$220,000 FF

The Governor's Budget provides permanent resources for the management, oversight and monitoring of the Medi-Cal Fiscal Intermediary (FI) contract that maintains the California Medicaid Management Information System (CA-MMIS). The CA-MMIS processes approximately \$13 billion in Medi-Cal fee-for-service payments annually. Federal law requires states that enter into such Medicaid FI contracts to meet certain federal requirements for contract administration. The conversion of these three limited-term positions to permanent positions in FY 2006-07 will ensure compliance with Federal law and regulations.

In-Home Supportive Services Plus Waiver: Extend Expiring Limited-Term Positions an Additional Two Years

4.0 Positions

\$371,000 Total Funds

\$185,000 GF

\$186,000 FF

The Governor's Budget extends resources for the In-Home Supportive Services (IHSS) Plus Waiver, due to expire June 30, 2006, for an additional two years to ensure ongoing compliance with Federal requirements for the CDHS' monitoring and oversight of the approved waiver. These positions will administer the IHSS Plus Waiver and maintain on-going Centers for Medicare & Medicaid Services' (CMS) required waiver monitoring and oversight. The IHSS Plus waiver allows the State to draw down federal funding for 26,000 individuals in the IHSS Residual program previously supported by state and county funding. The projected savings to the General Fund for the waiver is approximately \$213 million annually and approximately \$93 million to county funds for a total annual savings of over \$300 million.

Support Ongoing Workload for Medicare Part D

4.0 Positions

\$264,000 Total Funds

\$ 66,000 GF

\$198,000 FF

The Governor's Budget provides for permanent resources to address the ongoing workload created by the Medicare Modernization Act provisions related to prescription drug coverage (Medicare Part D) for beneficiaries dually eligible for Medicare and Medi-Cal. These positions will be responsible for researching problems pertaining to Medicare Part D enrollment of Medi-Cal beneficiaries identified through system transaction reports or reported by Federal and/or local government staff. The resolution of these problems will ensure the accuracy of the Medi-Cal Eligibility Data System (MEDS) and maintain the integrity of the Medi-Cal program's payment systems, specifically third party liability cost avoidance.

Implementation of Managed Care Expansion into 13 Counties

17.0 Positions

\$1,616,000 Total Funds

\$ 718,000 GF

\$ 898,000 FF

The Governor's Budget provides for additional resources to support the expansion of managed care, a major component of Medi-Cal Redesign approved in the Budget Act of 2005. These resources support the second year of managed care expansion and build upon the proposal approved in 2005-06 that authorized the establishment of positions to begin the initial development and start up work necessary to transition 13 new counties from fee-for-service to managed care. Additional resources are required in 2006-07 for full implementation of managed care expansion and supporting functions such as the continuation and completion of the contracting process, enrollment of the expanded population, continuation of stakeholder involvement and completion of the infrastructure necessary to administer and monitor quality improvement enhancements.

Third Party Liability Branch: Convert Limited Term Positions to Permanent

15.0 Positions

\$989,000 Total Funds

\$ 247,000 GF

\$ 742,000 FF

The Governor's Budget converts 15 existing limited-term positions to permanent positions. These positions recover Medi-Cal costs from the estates of certain deceased Medi-Cal beneficiaries and from other liable third parties. Continued increased collections are dependent on making these positions permanent. If these positions expire, the result will be reduced collections and a commensurate reduction in General Fund savings.

Implementing Nursing Facility Quality Assurance Fee and Reimbursement (AB1629)

41.3 Positions

\$6,830,000 Total Funds

\$3,415,000 GF

\$3,415,000 FF

The Governor's Budget provides for permanent positions and funding for 14.5 existing positions that were administratively established in the current year, but for which continued appropriation is not available after FY 2005-06. These new positions, and funding to support existing positions, are needed to implement and administer the requirements of Assembly Bill (AB) 1629 (Chapter 875, Statutes of 2004). The requested positions are needed, in part, to develop, implement, administer, and monitor:

1. A Quality Assurance (QA) Fee Program for the purpose of imposing fees on over 1,100 freestanding nursing facilities – level B. Additional positions will be required to calculate, assess, and collect QA fees and non-payments, and to recover any overpayments.
2. An initial assessment and annual reassessment process of each freestanding nursing facility - level B to verify land and building value necessary to change to a valuation-based model of capital cost reimbursement.

The budget also includes \$1.0 million in contractor funding for completing and implementing the new rate system for nursing facilities, and \$500,000 for the follow-up comparison report on collection and evaluation of nursing facility data.

Implementation of the Self-Directed Waiver for Individuals with Developmental Disabilities

2.0 Positions

\$193,000 Total Funds

\$ 96,000 GF

\$ 97,000 FF

The Governor's Budget establishes positions to perform duties and responsibilities under the Social Security Act, Title XIX, Section 1902(a) (5), as the State's Single State Medicaid Agency, for the implementation, monitoring, and ongoing oversight of a new Medicaid Self-Directed Waiver Program. The Department of Developmental Services (DDS) proposed a new Self-Directed 1915(c) Medicaid Home and Community-Based Services (HCBS) Waiver Program that will allow for self-directed services to be available to eligible developmentally disabled consumers over the age of three. However, without CDHS' resources to perform as the State's Single State Medicaid Agency, including submittal of the waiver application to CMS and performing the required State and federal oversight and monitoring functions, CMS will not approve the Self-Directed Waiver application. These positions will ensure that CDHS meets federal requirements to administer all federal waiver programs.

Improve Treatment Authorization Processing

6.0 Positions

\$713,000 Total Funds

\$285,000 GF

\$428,000 FF

The Governor's Budget provides for resources to create a Quality Assurance and Program Integrity entity to improve the Department's processing of Treatment Authorization Requests (TARs). These positions will collect, manage, and monitor Medi-Cal utilization review (UR) data; optimize and expand the current electronic TAR and auto-adjudication processes; and explore opportunities for improving the UR process. The UR process is a key tool in Medi-Cal's cost containment efforts.

Implementation of the Assisted Living Waiver Pilot Project

6.0 Positions

\$1,230,000 Total Funds

\$ 467,000 GF

\$ 763,000 FF

The Governor's Budget provides for permanent resources within Medi-Cal and Licensing and Certification (L&C) programs for the on-going operation of the Assisted Living Waiver Pilot Project (ALWPP). These positions are necessary to implement the waiver in three geographic locations, to provide appropriate monitoring and oversight of providers and consumers, and to evaluate both the utilization and effectiveness of this project. The budget includes an annual amount of \$522,667 for FY 2006-07 and 2007-08 to allow the contractor to complete program activities critical to implementation and evaluation of the ALWPP. AB 499 (Chapter 557, Statutes of 2000), requires the Department to seek a federal Medicaid waiver to test assisted living as a Medi-Cal benefit in two settings, residential care facilities for the elderly and publicly subsidized housing. However, AB 499 did not include an appropriation for funding or positions to support the ALWPP. The Assisted Living Waiver application has been approved by CMS. The ALWPP will serve up to 1,000 persons over its three-year term beginning January 1, 2006.

Increasing Medi-Cal and Healthy Families Enrollment: Media Campaign to Encourage the Enrollment of Eligible Children into a State Healthcare Program, Provide Counties with Funding for Outreach to Increase Enrollment of Eligible Children into a State Healthcare Program

10.0 Positions

\$932,000 Total Funds

\$466,000 GF

\$466,000 FF

The Governor's Budget includes two strategies to provide coverage to all uninsured children who are eligible for the Medi-Cal and Healthy Families programs. These strategies include: allocating funding to counties for expanded

outreach, enrollment and retention activities and launching a targeted statewide media campaign. The budget includes positions to implement and administer the allocations to counties and the media campaign.

The Local Assistance funding associated with these strategies are included in the Medi-Cal Estimate, County Administration Section.

County Outreach, Enrollment and Retention Allocations (County Allocations).

The State will allocate funding to counties who will partner with a broad range of public and private community organizations to perform outreach, streamlined enrollment, retention of health coverage, and appropriate utilization of health care.

Media Campaign. The State will launch a media campaign that targets the families of uninsured children who are eligible for but not enrolled in Medi-Cal/Healthy Families. Messages will include: the availability of the Medi-Cal/Healthy Families programs, the ease of enrollment and accessibility of application assistance, and the importance of keeping children enrolled in Medi-Cal/Healthy Families on an ongoing basis.

These two approaches and the State's commitment to increase Medi-Cal/Healthy Families coverage will align with current county efforts to expand children's coverage. Building upon counties' existing infrastructures and best practices, the State will provide essential resources to reach out to uninsured children eligible for Medi-Cal/Healthy Families. This partnership will allow counties to increase enrollment of Medi-Cal/Healthy Families eligible children and to invest county and foundation resources in providing coverage for children who are not eligible for Medi-Cal/Healthy Families through the Managed Risk Medical Insurance Board (MRMIB) Buy-In program or a local Healthy Kids program.

New Managed Care Plan for Individuals Eligible for Both Medi-Cal and Medicare, and Medi-Cal/SSI Only

11.0 Positions

\$1,152,000 Total Funds

\$ 525,000 GF

\$ 627,000 FF

The Governor's Budget addresses the unique needs of Medi-Cal beneficiaries who are eligible for both Medicare and Medi-Cal (generally referred to as dual eligibles). With these resources, a pilot project is being implemented to better serve dually eligible individuals and those who are eligible for Medi-Cal/SSI-only. These pilot projects will coordinate Medi-Cal and Medicare benefits to improve continuity of acute care, primary care and long term care, simplify health care access for enrollees, maximize the federal Medicare benefits, and may result in program savings over the long term. Dually eligible individuals are often high-cost and high service users of health care due to multiple chronic and disabling conditions. Individuals enrolled in these pilot projects will benefit from

coordinated care across Medicare, Medi-Cal and home and community-based services. Current statistics indicate that 57 percent of Medi-Cal eligible beneficiaries that are seniors and persons with disabilities are also currently eligible or potentially eligible for Medicare. With the implementation of the federal Medicare Modernization Act, Part D for pharmacy services, health care access will become even more fractured for dual eligibles.

Expansion of the Nursing Facility A/B Waiver

14 Positions

\$1,151,000 Total Funds

\$ 355,000 GF

\$ 796,000 FF

The Governor's Budget provides for permanent positions, effective October 1, 2006 (10.5 Personnel Years), to implement Senate Bill (SB) 643 (Chapter 551, Statutes of 2005) that requires the Department, in part, to: 1) submit an amendment to the CMS to add 500 additional waiver slots to the Nursing Facility Level A and B (NF A/B) Waiver, with 250 of those slots reserved for residents of nursing homes and acute care hospitals; and 2) expedite the processing of waiver applications for residents of nursing homes and patients in acute care hospitals awaiting nursing home placement. The workload associated with these new beneficiaries will be ongoing. Overall, the increased resources will enable CDHS to increase accessibility of home and community-based services for beneficiaries who are physically disabled, consistent with the Olmstead Decision that requires states to administer services, programs, and activities in the most integrated setting appropriate to the needs of beneficiaries with disabilities.

Implementation of the Hospital Financing Waiver

13.0 Positions

\$1,496,000 Total Funds

\$ 748,000 GF

\$ 748,000 FF

The Governor's Budget provides resources necessary to support the development, implementation, and on-going administration of the new reimbursement methodology required by SB 1100 (Chapter 560, Statutes of 2005) that established the Medi-Cal Hospital/Uninsured Care Demonstration Project Act (Medi-Cal Act). Specifically, the Medi-Cal Act provides the statutory framework for implementing the Section 1115 Medi-Cal Hospital/Uninsured Care Demonstration (Demonstration) that was approved by CMS. The Demonstration is effective September 1, 2005 (but allows the new reimbursement methodology to be retroactive to July 1, 2005), and will extend through August 31, 2010. Pursuant to the Medi-Cal Act, and in accordance with requirements of the Demonstration, federal Medicaid funding is made available to California's safety-net hospitals for services provided to Medi-Cal beneficiaries and uninsured individuals.

Establish the California Mental Health Disease Management Program

0 Positions

\$887,000 Total Funds

\$443,000 Other Funds

*(Mental Health Services
Act Fund)*

\$444,000 FF

The Governor's Budget provides resources to begin the development of the California Mental Health Care Management Program (CalMEND). Additionally, the CDHS has entered into an interagency agreement with the Department of Mental Health (DMH) to support CalMEND efforts in the FY 2005-06 in the amount of \$370,000. DMH will access these funds directly from the Mental Health Services Act and reimburse CDHS for CalMEND related activities.

The monies will be used primarily to contract for CalMEND program management, consumer education and peer counseling, clinical consultation, data analysis activities, and administrative support. The budget addresses only the initial stages of the CalMEND project. Additional resources will be required in future years to fully implement all provisions of CalMEND.

Reform Adult Day Health Care Program

4.0 Positions

\$873,000 Total Funds

\$140,000 GF

\$733,000 FF

The Governor's Budget provides the resources necessary to make changes to the Adult Day Health Care (ADHC) program to decrease fraud and abuse in the ADHC programs and generate cost savings. It is anticipated that \$19.8 million (\$9.9 million GF) estimated savings would be realized in FY 2006-2007, and that total annual savings of up to \$121.8 million (\$60.9 million GF) would be achieved starting in FY 2007-2008.

Conduct Outreach to Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care

9.0 Positions

\$916,000 Total Funds

\$386,000 GF

\$530,000 FF

The Governor's Budget provides resources for: 1) creating an infrastructure for increasing the State's capacity to serve seniors and persons with disabilities (SPDs) and chronic conditions, including developing and implementing statewide standards and requirements specific to this medically fragile population; 2) development of education and outreach efforts that would include targeted strategies and creation of enhanced materials to increase voluntary enrollment of the Medi-Cal/SSI-Only SPD population in all managed care counties (Local Assistance funding for education and outreach efforts are included in the Medi-

Cal Estimate); and 3) initiating a limited implementation of mandatory enrollment of Medi-Cal/SSI-Only eligible SPDs into Medi-Cal managed care health plans. Dually eligible SPDs who are also eligible for Medicare will not be included. CDHS will convert two selected counties from voluntary to mandatory enrollment for the Medi-Cal/SSI-Only SPDs who currently receive care through the fee-for-service delivery system.

Establish a Coordinated Care Management Pilot Project

5.0 Positions

\$473,000 Total Funds

\$208,000 GF

\$265,000 FF

The Governor's Budget provides permanent resources and contract services to implement a Coordinated Care Management (CCM) Demonstration Project. The goal of the CCM Demonstration Project is to contain costs, maintain access to medically necessary and appropriate services, and improve health outcomes for two populations of Seniors and Persons with Disabilities (SPDs) enrolled in the Fee for Service Medi-Cal Program who are not on Medicare, 1) those who have chronic conditions or may be seriously ill and near the end of life; and 2) persons with Serious Mental Illnesses (SMIs) who are not on Medicare, and have chronic health condition(s). SPDs with chronic health conditions or terminal illnesses and persons with SMIs and chronic health conditions account for a significant portion of Medi-Cal program expenditures. To provide care in a more cost effective manner, it is critical to address the high medical costs of these beneficiaries. The goal of the Demonstration is to enhance coordination of care, improve health outcomes, and decrease the long-term costs of Medi-Cal's SMIs and SPD populations. This project will be implemented in three to four counties.

MEDI-CAL LOCAL ASSISTANCE

The Medi-Cal GF costs in FY 2006-07 are expected to increase by \$542.3 million from FY 2005-06 estimated expenditures of \$13.2 billion to \$13.7 billion. The increase in expenditures is attributed to proposals as previously discussed and changes listed in Attachment A.

PRIMARY CARE AND FAMILY HEALTH

Women, Infants and Children

0 Positions

\$35,000,000 Total Funds

\$35,000,000 Other Funds

Federal regulations for the Women, Infants and Children (WIC) program require states to spend all rebate revenue associated with the program prior to drawing down federal food funds. Beginning in FY 2005-2006, rebate revenue is estimated to exceed the Manufacturers Rebate Fund budget authority. Without additional authority WIC will be prohibited from spending excess rebate revenue,

thus freezing WIC's ability to draw down federal grant funds. The Governor's Budget provides for an increase in Local Assistance expenditure authority of \$26 million in FY 2005-06 and a permanent increase of \$35 million in FY 2006-07.

CMS Net Case Management System

4.0 Positions

\$431,000 Total Funds

\$255,000 GF

\$176,000 FF

The Governor's Budget provides resources for ongoing systems support for the Children's Medical Services Network (CMS Net). The Department completed a major enhancement to the CMS Net automated case management system in 2004. This enhancement provides for electronic confirmation of California Children's Services (CCS) eligibility, electronic transmittal of service authorizations to the claims payment system, and electronic billing by CCS providers in conformance with the Health Insurance Portability and Accountability Act (HIPAA). CMS Net is now implemented in 55 counties. In order to accommodate the operational requirements of the remaining counties (Los Angeles, Orange, and Sacramento), CMS Net modifications will provide features required by those counties, such as a mass mailing interface and an integrated paper medical record tracking system. This evolution of CMS Net significantly increased the complexity of the system and the need for additional resources for ongoing system support. The conversion of contractors to state staff will result in an offsetting savings of \$576,000 (\$360,000 GF/\$216,000 FF) in the fiscal intermediary local assistance item.

Unserved/Underserved Domestic Violence Program

0 Positions

\$350,000 Total Funds

\$350,000 GF

The Governor's Budget provides for a consistent level of ongoing funding for the Domestic Violence Program to address the needs of nontraditional users of domestic shelter services. The funding for FY 2005-06 includes one time funding from the Nine-West Settlement Agreement Fund. The 2006-07 budget includes \$350,000 General Fund local assistance to ensure continuation of program activity at its current level.

LICENSING & CERTIFICATION

Fingerprint Investigation Unit Workload

14.5 Positions

\$1,328,000 Total Funds

\$1,328,000 Other Funds

The Governor's Budget provides for ten (10) two-year limited-term positions and 4.5 permanent positions to meet critical workload in the Professional Certification Branch (PCB). A one-time report generated from the Department of Justice's

(DOJ) electronic criminal offender record information (CORI) system will provide subsequent conviction information for previously obtained arrest records to the Fingerprint Investigation Unit (FIU). Modifications to the DOJ system will continue to provide updated conviction information to FIU. The increased workload associated with processing the conviction information requires the limited-term positions, as well as the need for ongoing staffing. These activities will be funded from the newly created Licensing and Certification Fund.

The budget also includes a one-time allocation of \$65,000 to conduct a feasibility study to provide the FIU with a long-term automation solution to provide efficiencies that will, over time, reduce the need for future staffing requests.

Licensing and Certification Workload

141.0 Positions

\$17,589,000 Total Funds

-\$ 45,170,000 GF

\$ 62,759,000 Other Funds

The Governor's Budget provides for 118 permanent positions and 23 limited-term positions to complete all required state licensing and federal certification workload including complaint investigations, periodic survey inspections of health facilities, and the monitoring of medication-related error reduction plans. The budget also provides \$2.7 million in contract dollars for Los Angeles County to perform the functions of a Licensing and Certification (L&C) district office via a contract with the CDHS Licensing and Certification Program. These activities will be funded from the newly created Licensing and Certification Fund.

In addition, the budget provides FY 2005-06 funding in the amount of \$8.0 million GF to administratively establish 67.0 of the positions effective January 1, 2006, as new surveyors require a lengthy training period prior to becoming fully competent to perform most survey activities.

PREVENTION SERVICES

Botulism Immune Globulin (BabyBIG) – Technical Transfer

0 Positions

\$1,100,000 Total Funds

\$1,100,000 Other Funds

The Governor's Budget provides for a one-time increase in expenditure authority of \$1.1 million in FY 2006-07 from the Infant Botulism Treatment and Prevention Fund to support an unavoidable change in one of the manufacturing facilities to meet U.S. Food and Drug Administration (FDA) requirements. The present manufacturer, who is specified in the FDA license, is redirecting its facility activities effective June 30, 2005, and will no longer be part of the manufacturing process of BabyBIG®. Any such technical transfer of proprietary methodology and technology to a new facility is tightly regulated by the FDA. This technology transfer work will require an amendment to the BabyBIG® License that

automatically requires extensive studies of proof of capability in the new facility and will cost \$1.1 million in FY 2006-07.

Radiation Control Program Staffing

8.0 Positions

\$0 Total Funds

The Governor's Budget provides for the establishment of permanent Associate Health Physicist positions beginning January 1, 2006, to administer the public health functions associated with California's radiation safety program and to be compatible with federal and state mandates. These additional resources will help CDHS to meet the federal and state mandates and will decrease the public's risk of excessive and improper exposure to radiation. Sufficient expenditure authority currently exists to fund the additional positions.

Drug and Medical Device Manufacturer Workload

7.0 Positions

\$815,000 Total Funds

\$815,000 Other Funds

The Governor's Budget provides additional resources to conduct statutorily mandated new and renewal drug and medical device licensing inspections, and to manage the administrative activities of the drug and medical device licensing programs. These positions will be funded from the Drug and Device Safety Fund.

Export Document Program Workload

2.0 Positions

\$228,000 Total Funds

\$228,000 Other Funds

The Governor's Budget provides resources to review export certification requests, including applications and product labeling, for conformance with state and federal regulations. Funds are provided for the development, printing and distribution of an informational brochure to be translated into several languages and made available to applicants needing assistance in a language other than English for their export certification needs. These activities will be funded from the Export Document Program Fund.

Medical Waste Management Workload

6.0 Positions

\$642,000 Total Funds

\$642,000 Other Funds

The Governor's Budget provides resources to complete inspections of medical waste generators, as mandated by the Medical Waste Management Act. The State acts as the local enforcement agency in 25 counties and two cities, responding to complaints of illegal disposal of medical waste and auditing local medical waste programs. The Medical Waste Management Program is currently understaffed and has a backlog of its current year inspections of medical waste

generator facilities. The lack of inspections increases the probability of improper storage and disposal of medical waste that increases the risk of exposure to disease causing organisms to healthcare workers and patients. Improper disposal of medical waste, like incidences of medical waste in recycling facilities and beaches, increases the risk of exposure to the general public.

Proposition 50: Drinking Water Management Program: Extend Limited-Term Positions for Two Years

15.5 Positions

\$1,605,000 Total Funds

\$1,605,000 Other Funds

The Governor's Budget extends the position authority of 15.5 limited-term positions another two years for the program to continue providing grants to public water systems for the improvement of water system security and the delivery of safe drinking water. These positions are due to expire June 30, 2006. The Proposition 50 positions are responsible for carrying out the program's financial, accounting, engineering, and California Environmental Quality Act activities necessary to administer the grants. These positions will be funded from the Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002 (Proposition 50).

Drinking Water Technical Assistance Program: Extend Limited-Term Positions for Two Years

10.5 Positions

\$1,123,000 Total Funds

\$1,123,000 Other Funds

The Governor's Budget extends the position authority of 10.5 limited-term positions another two years for the Small System Technical Assistance Account of the Safe Drinking Water State Revolving Fund to provide essential technical support to approximately 7,000 small water systems. Without such support, many of these small water systems would be unable to comply with the numerous and technically complex federal and state requirements that are necessary to secure funding to achieve a safe drinking water supply. These positions are scheduled to expire on June 30, 2006.

Environmental Health Specialist Registration: Continuing Education Program

0 Positions

\$130,000 Total Funds

\$130,000 Other Funds

The Governor's Budget provides for the resources to establish a continuing education program for Environmental Health Specialists. The California Health and Safety Code, Section 106705, provides for the establishment of the requirements and standards for continuing education for Registered Environmental Health Specialists. The practice of environmental health is recognized as a first line of defense against diseases as well as issues that affect

the quality of life within a community. These positions are funded through the Registered Environmental Health Specialist Fund.

Safe Drinking Water Account Staffing

11.0 Positions

\$1,110,000 Total Funds

\$1,110,000 Other Funds

The Governor's Budget provides the resources to ensure mandated oversight for large public water systems that have 1,000 or more service connections. The program oversees the activities of approximately 8,500 large public water systems that serve drinking water to more than 98 percent of California's population. The funding to support these positions is generated from fees that are deposited in the Safe Drinking Water Account. The department proposes a prioritization process to ensure that the water systems with the highest potential public health risk receive annual inspections, such as surface water systems that serve a significant number of California's population.

Cigarette and Tobacco Products Surtax Funds (Proposition 99)

5.0 Total Positions

\$11,400,000 Total Funds

\$11,400,000 Other Funds

The Governor's Budget revises the spending plan (Plan) for the Cigarette and Tobacco Products Surtax Funds (Proposition 99) for FY 2006-07 and provides an updated Plan for FY 2005-06. Additional resources make it possible for California to continue funding in support of the implementation of the statewide asthma prevention program, expand support for important tobacco control and smoking prevention activities, and to further increase the General Fund savings.

The Plan includes \$4.0 million from the Proposition 99 Unallocated Account (UA) and 5.0 permanent positions for the CDHS to continue the implementation of the statewide asthma prevention program. In FY 2005-06, \$3.0 million in one-time, UA funding launched an expanded state effort to increase and improve California's response to asthma. This budget continues the \$3.0 million UA funding, and provides an additional \$1.0 million to establish an infrastructure to counteract rising incidence, medical care costs, and the complexity of environmental actions needed to address asthma.

The Plan also includes \$7.4 million in one-time funding from the Proposition 99 Health Education Account (HEA) to address the health disparities of California's priority populations in terms of tobacco use and protection to secondhand smoke exposure and to address cessation.

The Plan includes an additional \$17.7 million to pay Medi-Cal Local Assistance costs resulting from the Orthopaedic Hospital Settlement from the Proposition 99 Hospital Services Account (HSA) and the UA, thereby saving GF. Further

information regarding the Local Assistance adjustment is provided in the Medi-Cal Estimate.

AIDS Drug Assistance Program (LA)

0 Positions

\$28,124,000 Total Funds

\$16,551,000 GF

\$11,573,000 Other Funds

The Governor's Budget provides for an augmentation to help adequately address the serious health needs of a vulnerable population of Californians. The AIDS Drug Assistance Program (ADAP) is a program of last resort that provides life-saving drugs to Human Immunodeficiency Virus (HIV) infected individuals who need financial assistance. In the last five years, the number of ADAP clients has grown from 23,744 to 28,227 and costs for providing medications have risen steadily. Due the availability of pharmaceutical care, fewer HIV-infected Californians now progress to an AIDS diagnosis, thereby avoiding higher public health costs associated with the treatment of advanced HIV disease. The timely provision of HIV/AIDS drugs also saves the state money by treating HIV-positive patients early and avoiding deteriorating health and lessening the number of HIV-infected people that transition to Medi-Cal for their health care services. This increase is funded from the GF and the ADAP Rebate Fund.

Prostate Cancer Treatment Program (SB 650)

0 Positions

\$3,478,000 Total Funds

\$3,478,000 GF

The Governor's Budget provides resources to continue the Prostate Cancer Treatment Program (PCTP) reestablished by the enactment of SB 650 (Chapter 442, Statutes of 2005). The budget also includes resources to reestablish a permanent infrastructure for this program, including reliable staffing and other resources to oversee, support, and evaluate the program.

California Safe Cosmetics Act (SB 484)

4.0 Positions

\$495,000 Total Funds

\$495,000 GF

The Governor's Budget provides resources to address public concerns about the chemical composition and safety of cosmetics sold in California, as mandated by SB 484 (Chapter 729, Statutes of 2005). The legislatively required study and experience with the reformed program will guide future spending levels. The staffing will develop reporting standards; review formulation information; perform data analysis on violations of the Cosmetic Safety Act; prepare and provide training for the industry; perform quality assurance and control testing; and prepare necessary reports to ensure the safety of cosmetics sold in California.

Adulterated Candy: Maximum Allowable Lead Levels (AB 121)

8.0 Positions

\$1,002,000 Total Funds

\$1,002,000 GF

The Governor's Budget responds to the ongoing public health problem of lead poisoned children by providing the necessary resources to abate lead from candy sold in California, in accordance with the mandates of AB 121 (Chapter 707, Statutes of 2005). Specifically, CDHS will regulate the lead content in candy by: 1) testing candy to determine whether it contains lead in excess of the adulteration level; 2) establishing procedures for use by candy manufacturers for testing and certifying candy as being unadulterated; 3) taking follow-up actions, as defined, to ensure that adulterated candy would not be sold or distributed; 4) convening an interagency collaborative to serve as an oversight committee; and 5) to work with Office of Environmental Health Hazard Assessment (OEHHA) in establishing and revising the adulteration level of lead.

Processed Food Registration Program (AB 1081)

1.0 Position

\$-73,000 Total Funds

\$1,327,000 Other Funds

\$-1,400,000 GF

The Governor's Budget includes additional food safety resources, pursuant to AB 1081 (Chapter 401, Statutes of 2005), to prevent and reduce food borne illnesses and deaths. The additional expenditure authority in the Food Safety Fund will fund redirected positions from within CDHS to 1) complete statutorily required inspections of food processing facilities; and 2) re-inspect food processors with critical violations. Six positions will be redirected from the bottled and vended water program, currently funded by the GF, to the Food Safety Fund to coincide with the shift in deposit of license fees as set forth by AB 1081. Five additional positions will be redirected and one new position established to provide sufficient resources to meet the program's mandates.

HEALTH INFORMATION AND STRATEGIC PLANNING**California Electronic Death Registration System (CA-EDRS)**

0 Positions

\$543,000 Total Funds

\$543,000 Other Funds

AB 2550 mandated the development and operation of an automated death registration process throughout the State. The Governor's Budget provides the resources necessary to transition from development to implementation and statewide operation of the California Electronic Death Registration System in California, as mandated by AB 2550 (Chapter 857, Statutes of 2002). These activities will be funded from the Health Statistics Special Fund.

Vital Records Redaction, Access and Computerization

19.0 Positions

\$10,819,000 Total Funds

\$10,819,000 Other Funds

The Governor's Budget provides additional resources to implement mandates of SB 247 (Chapter 914, Statutes of 2002) that required Statewide Access and Automated Redaction and Computerization of Records. The budget includes \$10.819 million for FY 2006/07 (\$6,141,000 in one-time expenditures) and \$6.128 million for FY 2007/08 (\$779,000 in one-time expenditures) from the Health Statistics Special Fund to continue these activities.

ADMINISTRATION

Audit County Administration Cost Claims

5.0 Positions

\$506,000 Total Funds

\$253,000 GF

\$253,000 FF

The Governor's Budget provides resources to conduct on-site fiscal reviews to verify the accuracy of Medi-Cal administrative costs claimed in each of the 58 counties. These resources will improve the County Administration allocation process by incorporating the results of county reviews in the county administrative funding process. These reviews of the fiscal information from quarterly claims submitted from each county will include examination of supporting financial and supplemental documentation, assessment of county compliance with assigned performance standards, and provision of data to make more informed decisions regarding cost management and process improvements.

AUDITS AND INVESTIGATIONS

Anti-Fraud Program: Convert Limited Term Positions to Permanent

20.0 Positions

\$2,314,000 Total Funds

\$ 824,000 GF

\$1,490,000 FF

The Governor's Budget provides for permanent resources for the Medi-Cal Anti-Fraud Initiative. The FY 2003/04 budget included 39 additional positions to increase onsite enrollment and re-enrollment reviews of providers identified as high-risk for fraud or abuse during the application review process. Of the 39 positions, 20 were authorized as three-year, limited term positions with an expiration date of June 30, 2006, as it was anticipated that the number of providers referred for an onsite enrollment or re-enrollment review would decrease over time. However, the number of referrals has not decreased (over 700 high-risk provider referrals are made annually). Of these referrals, approximately 60 percent are recommended for denial. The positions are

necessary to continue the enrollment and re-enrollment onsite reviews to reduce fraud and abuse in the Medi-Cal program.

OFFICE OF LONG TERM CARE

Convert Limited Term Long-Term Care Position to Permanent Status

1.0 Position

\$57,000 Total Funds

\$28,000 GF

\$29,000 FF

The Governor's Budget provides for permanent resources to support the Office of Long Term Care (OLTC). The support staff provides ongoing oversight of two well-established long term care programs, while supporting staff and work products related to major initiatives, such as the In-Home Supportive Services Plus waiver, the federal Real Choice Systems Change grant, and the expansion of Medi-Cal managed care.

Develop a Long-Term Care Community Options and Assessment Protocol

1.0 Positions

\$595,000 Total Funds

\$297,000 GF

\$298,000 FF

The Governor's Budget provides resources for two years to test and validate a uniform assessment tool and protocol for proactively assessing Medi-Cal eligible individuals' preferences, needs and access to home and community-based alternatives before admission to a nursing facility. Currently, there is no such uniform assessment tool or protocol for community-based health and supportive service programs to share relevant information when it would benefit an individual trying to access multiple services and supports instead of being admitted to a nursing facility. The lack of a uniform assessment tool and protocol was identified as a high priority for resolution under California's Olmstead Plan for ensuring individuals who need long term care services and supports to remain in their home and communities. The uniform assessment project will be called the Community Options & Assessment Protocol (COAP) to highlight the project's goal of providing options that enable individuals to avoid early or unnecessary inpatient nursing facility care.

MEDI-CAL LOCAL ASSISTANCE ADJUSTMENTS

Adjustments for 2005-06 Compared to the 2005-06 Budget Appropriation and Changes from 2005-06 to 2006-07

PC 5 Redetermination Form Simplification: As part of the Governor's initiative to ensure medical coverage for all children in California, the Medi-Cal annual redetermination form is being revised to make it easier for Medi-Cal beneficiaries to fill out. This is expected to increase the number of beneficiaries subject to redetermination that complete the report and remain eligible for Medi-Cal by 2% per month. Based on the first additional beneficiaries remaining eligible in March 2006, the cost is expected to be \$1 million GF in 2005-06, and is expected to increase by \$20 million GF in 2006-07.

PC 9 New Qualified Aliens: The Welfare Reform Bill specified that federal funds are only available for emergency services for nonexempt qualified aliens during the first five years they are in the country. California law requires that legal immigrants receive the same services as citizens; therefore, full-scope services are provided to new nonexempt qualified aliens and the cost of non-emergency services is reimbursed to the federal government. The costs for these services have grown more than anticipated in the 2005-06 Appropriation. The amount of funding that will be returned to the federal government for non-emergency services is expected to increase by \$31 million GF in 2005-06. In 2006-07 costs are expected to be \$22.7 million GF higher than in 2005-06.

PC 29 SCHIP Funding for Prenatal Care: In order to maximize revenues, a State Plan Amendment (SPA) has been filed in the State Children's Health Insurance Program (SCHIP) to claim 65% federal funding for prenatal care provided to women currently ineligible for federal funding for this care. The SPA was filed on June 30, 2005, which allows SCHIP funding to be claimed in 2005-06 for both 2004-05 and 2005-06 and on an ongoing basis. GF savings from this federal claiming is expected to be \$182.7 million in 2005-06, \$9.0 million GF less than anticipated in the 2005-06 Appropriation. The reduction is mainly due to lower estimated costs for prenatal care for undocumented women. Savings in 2006-07 are expected to be \$92.2 million GF, which creates an increase of \$90.5 million GF when comparing the claiming for 2006-07 to the two years of claiming in 2005-06.

PC 56 Mental Health Services: The Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program administered by the Department of Mental Health is an entitlement program for children and adults under the age of 21. Under the EPSDT program approximately 185,000 Medi-Cal eligible children

and young adults receive services to ameliorate a diagnosed mental illness. The GF, which is currently included in the Department's Medi-Cal budget, is expected to be \$11.5 million greater than anticipated in the Appropriation due increased utilization. In 2006-07, the GF for EPSDT, as well as the GF for antipsychotic drugs and related laboratory services for persons in the San Mateo County Mental Health Plan, will be budgeted in the Department of Mental Health budget, resulting in a reduction in the Medi-Cal budget of \$419.1 million GF. Title XIX federal funds will continue to be included in the Medi-Cal budget.

PC 68 LTC Rate Adjustments: The Medi-Cal State Plan requires that long-term care (LTC) rates be adjusted each year. With the passage of AB 1629 (Chapter 875 Statutes of 2004), this requirement now applies only to level A nursing facilities, hospital distinct-part level B nursing facilities, rural swing beds, pediatric sub-acute beds and intermediate care facilities for the developmentally disabled (ICF-DD). The identified rate is also applied to applicable LTC components of managed care, Programs for the All-Inclusive Care of the Elderly (PACE), and Senior Care Action Network (SCAN) plans. The rate increase implemented effective August 2005 is a two year rate increase, since rates had been frozen in 2004-05. The costs included in the 2005-06 Appropriation were based on preliminary information on facility costs and included a 3.44% increase for ICF-DDs and an 8.23% weighted average increase for the other facilities. With more complete information these rates increases are 6.17% and 14.7%, resulting in increased costs in 2005-06 of \$20.6 million GF. In 2006-07 costs are expected to increase \$40.1 million for an additional rate increase provided in August 2006. This rate increase is expected to be one-half of the two year increase provided in 2005-06.

PC 76 Audit Settlements: The Department expects to repay the federal government \$24.0 million GF in 2005-06 for 3 audits related to the provision of mental health services (\$0.6 million GF) and a deferral of costs incurred by the State from January through April 2004 for individuals determined to be ineligible for Medi-Cal by Los Angeles County, but who continued to show as currently eligible on the eligibility data files (\$23.4 million GF). There are no expected audit costs in 2006-07, creating a reduction in costs from 2005-06 to 2006-07 of \$24 million.

PC 119 Serono and U.S. Affiliates Settlement: As part of a federal settlement, California has settled with Serono S.A., the maker of Serostim, an anti-wasting drug mainly used by AIDS patients. The settlement relates to an investigation into whether Serono violated federal and state false claims acts or anti-kickback laws. Serono is repaying Medi-Cal \$42.2 million GF for unnecessary Serostim prescriptions during 1997 to 2004. This is a one-time savings in 2005-06; therefore, Medi-Cal costs will increase by a like amount in 2006-07.

PC 120 5% Provider Payment Decrease: The Budget Act and Trailer Bill of 2003 reduced selected provider payments by 5%. The Department was enjoined from implementing this reduction for all providers except managed care plans. The Department appealed and in August 2005 the original decision was reversed. AB 1735 (Chapter 719, Statutes of 2005), changed the effective date of the payment decrease from January 2004 to January 2006. The payment decrease expires on December 31, 2006. The one-time savings is expected to be \$25 million GF in 2005-06 and then increase by \$17.7 million GF in 2006-07 to \$42.6 million GF.

Medicare Modernization Act – Medicare Part D: PC 18 Medi-Cal Continuation of Part D Excluded Drugs; PC 32/33/36/37 MMA Medicare Drug Benefit; PC 54 MMA Managed Care Capitation Savings; PC 61 MMA Phased-Down Contribution for Part D; and PC 72 100 Day Prescription Supply: The Medicare Part D drug benefit included in the Medicare Modernization Act (MMA) with an effective date of January 2006, is currently being implemented. Medi-Cal has discontinued the coverage of all drugs for Medi-Cal/Medicare dual eligibles that are covered under Part D. The federal government is requiring the states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles. The initial payment for this “clawback” is 90% of the savings as identified under federal formula, which is reduced each year until it reaches 75% on an ongoing basis. The impact of implementing Medicare Part D in 2005-06 is \$59 million GF more than anticipated in the 2005-06 Appropriation due to a recalculation of the drug benefit reductions to account for the actual checkwrite schedule from January to June 2006 and the addition of funding for an expected 15% increase in the number of beneficiaries requesting prescriptions with a 100 day supply prior to implementation of Part D. Total MMA Part D related costs in 2006-07 are expected to increase by \$211.8 million GF. This includes a reduction of \$1,085.7 million GF in drug costs, clawback payments of \$768.1 million GF and lost rebates of \$544.1 million GF.

Hospital Financing - Current Funding: PC 63 Disproportionate Share Hospitals; PC 88 Voluntary Governmental Transfers; PC 127 Hospital Financing - Inpatient Base Reduction; Summary Chapter 270/91 (SB 855 Transfer): SB 1100 (Chapter 560 , Statutes of 2005) implements the provisions of the Medi-Cal Hospital /Uninsured Care Demonstration (MH/UCD), approved in September 2005. Under the waiver and SB 1100, most of the current process of using intergovernmental transfers (IGTs) to draw down federal funding will end. The \$85 million transfer to the GF from the governmental entities will no longer be available, resulting in an \$80.0 million GF cost in 2005-06 and an additional cost of \$5 million GF in 2006-07. In addition, most inpatient costs for twenty-two designated public hospitals will now be funded through federal funding for certified public expenditures. This will result in a savings of \$266 million GF in 2005-06, increasing by \$141.2 million GF in 2006-07 to \$407.2 million GF.

Hospital Financing - State Program Federal Funding: PC 27 Hospital Financing – Medically Indigent Adult – Long-Term Care; PC 101 Hospital Financing – Breast and Cervical Cancer Treatment Program: Under the provisions of the Medi-Cal Hospital/Uninsured Care Demonstration (MH/UCD) and SB 1100, federal funding available from the Safety Net Care Pool established by the MH/UCD can be used under certain circumstances to provide 50% federal funding to state-only programs. In 2005-06, the Estimate assumes that this funding will be available for two state-only Medi-Cal programs, the Medically Indigent Adult LTC (MIA-LTC) Program, with savings of \$15.2 million GF, and the state-only component of the Breast and Cervical Cancer Treatment Program (BCCTP), with savings of \$1.7 million GF. This funding is assumed to continue in 2006-07, with savings growing by \$4.5 million GF for the MIA-LTC Program and \$0.3 million GF for BCCTP.

Hospital Financing - New Medi-Cal Funding: PC 57 Hospital Financing – Designated Public Hospital and Non-Designated Public Hospital DSH Payments; PC 58 Hospital Financing – Designated Public Hospital Interim Payments; PC 60 Hospital Financing – Safety Net Care Pool; PC 62 Hospital Financing – Private DSH Replacement; PC 65 Hospital Financing – Private Hospital Supplemental Payments; PC 69 Hospital Financing – Physician and Non-Physician Payments; PC 75 Hospital Financing – Distressed Hospital Fund; PC 93 Hospital Financing – Non-Designated Public Hospital Supplemental Payments: Implementation of the MH/UCD will result in \$2,409.0 million in Title XIX federal funding being provided to hospitals in 2005-06. There will be GF costs to draw down this federal funding for 1) uncompensated Medi-Cal and uninsured costs for non-designated public hospitals (\$4.2 million GF), 2) Disproportionate Share Hospital (DSH) replacement funding for private hospitals (\$213.1 million GF), 3) supplemental payments for uncompensated costs to private hospitals to replace the funding they previously received through the use of intergovernmental transfers (\$118.4 million), and 4) supplemental payments for uncompensated costs to non-designated public hospitals to replace the funding they previously received through the use of intergovernmental transfers (\$1.9 million GF). In 2006-07 GF, costs are expected to increase by \$0.4 million GF for uncompensated Medi-Cal and uninsured costs for non-designated public hospitals, and \$19.4 million GF for DSH replacement funding for private hospitals.

In total, Hospital Financing is expected to have a Medi-Cal GF benefit cost of \$134.7 in 2005-06, on a cash basis. When the savings to the California Children's Services (CCS) and Genetically Handicapped Persons Program (GHPP) programs for Federal Financial Participation received from the Safety Net Care Pool are considered, the cost to the GF is reduced to \$93.9 million. In 2006-07, the GF cost to Medi-Cal will decrease by \$121.2 million for a net cost to Medi-Cal over the two years of \$13.5 million GF. When offset by the savings in CCS and GHPP, there is a net GF savings over the two years of

\$54.8 million GF. Over the two years, the MH/UCD increases the federal funding available for hospital financing by \$963 million.

County Administration: County and Other Administration costs are expected to decrease by \$3.9 million GF in 2005-06 from the Appropriation mainly due to reduced funding for CCS case management, elimination of funding for long-term care pilot project assistance (Part of the 2005-06 Budget Act Section 4.05 reduction) and reduced postage and printing costs. In 2006-07 costs are expected to decrease by \$9.6 million GF from 2005-06. Allowable salary, benefit and overhead costs for county workers determining Medi-Cal eligibility will be frozen at 2005-06 levels. Included in the costs for 2006-07 is \$10 million GF for outreach to enroll uninsured children in Medi-Cal and Healthy Families. This funding will be used for county initiatives, a media campaign and increased usage of the Medi-Cal/Healthy Families toll-free line.

Fiscal Intermediary: Costs for the fiscal intermediary are expected to decrease by \$0.3 million GF in 2005-06 and increase by \$2.6 million in 2006-07.

All Other: All other changes amount to a decrease of \$6.2 million compared to the 2005-06 Appropriation. These changes include the net impact of all other changes not listed above.

Additional Adjustments in 2006-07

The following paragraphs briefly describe additional items that are not already discussed under the 2005-06 Section:

PC 31 Adult Day Health Care Reforms: Trailer bill language is being introduced and staffing requested to allow the Department to unbundle the current all-inclusive Adult Day Health Care (ADHC) procedure code into its component parts, tighten medical criteria to ensure that only those that need specific ADHC services get them, allow the Department of Aging to perform post-payment audits of participant charts, and add Medi-Cal field office staff to do on-site approvals of requests for prior authorization. These reforms are expected to result in annual savings of \$64.2 million GF, beginning in 2006 with savings of \$9.9 million GF in 2006-07.

PC 38 Two Plan Model; PC 39 County Organized Health Systems; PC 40 Geographic Managed Care; PC 42 PACE; and PC 43 Senior Care Action Network: Managed care plans are expected to experience growth in enrollees in 2006-07 which will result in increased costs of \$64.2 million. These increased managed care base costs are expected to be \$31.7 million GF for the twelve Two Plan Model counties, \$15.1 million GF for the eight County Organized Health System (COHS) counties, \$2.3 million GF for the two Geographic Managed Care (GMC) counties, \$4.7 million GF for the four PACE plans, and \$10.4 million GF for the SCAN plans in Los Angeles and San Bernardino Counties.

PC 52 Managed Care Expansion: The 2005-06 Budget Act included geographic expansion of managed care. Three counties, El Dorado, Imperial and Placer, will begin operation in 2006-07. The first month of operation is expected to be March 2007. Due to the immediate payment of managed care capitation payments for new enrollees and the lag between the time services are provided and the time the claim for payment is submitted and paid under fee-for-service, on a cash budgeting basis there will be an initial cost for the switch of fee-for-service eligibles to managed care. The cost in 2006-07 for the three counties implementing managed care in 2006-07 is expected to be \$4.6 million GF.

PC 55 Buy-In: Costs for paying for the Medicare Part A and Part B premiums for persons eligible for Medi-Cal are expected to increase by \$147.1 million GF in 2006-07. This increase is driven by the continued growth in the number of aged and disabled persons eligible for Medi-Cal, the significant premium rate increases that will be given in January 2006 (\$375 to \$410 for Part A and \$78.20 to \$88.50 for Part B) and expected premium rate increases in January 2007.

Fee-For-Service Base: The fee-for-service base costs are expected to increase from 2005-06 to 2006-07 mainly due to a projected increase of \$364.6 million GF in pharmacy costs and \$127.9 million GF in inpatient costs. The increase in pharmacy costs, due to increased users and increased rates, is prior to applying the impact of implementation of MMA Medicare Part D. Base inpatient costs are expected to increase due to increased users and rates. Approximately 80% of the fee-for-service base cost increase is for services to the aged and disabled.

All Other: All other changes amount to an increase of \$5.5 million GF compared to 2005-06. These changes include the net impact of all other changes not listed above.